HOUSINGWIRE

GSE conforming loan limits could adjust again

Is the housing market ready for a lower ceiling?

By Christina Mlynski
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Policymakers are contemplating a reduction in the maximum size of home loans that **Fannie Mae** and **Freddie Mac** are allowed to acquire, hoping this change will reduce the government's dominant footprint in the mortgage market.

However, many industry experts are concerned such a move to adjust conforming loan limits will limit the pool of potential homebuyers, derailing the current housing recovery. Rumors really took off when the Wall Street Journal noted that plans are underway to adjust the limits.

The **National Association of Realtors** (NAR) said it's prepared to work with Congress on mortgage finance reforms that maintain consumer access to affordable mortgage products for qualified borrowers. But it's too soon to change the conforming loan limits, the association's leader said.

"It would be counterproductive to make changes to the loan limits before capital is fully engaged," explained NAR president Gary Thomas.

Currently, both enterprises have loan balances as high as $417,000 in the majority of the country and up to $625,000 in expensive housing markets such as San Francisco, Boston and Washington D.C.

Mortgage Bankers Association president and CEO David Stevens believes the loan limits will adjust downward to $400,000 and $600,000, respectively.

While it may seem marginal, Stevens says without a comfortable return of private capital, only the wealthiest borrowers with high downpayments and solid credit scores will be able to purchase a mortgage.

"While the change will be small, it will be assumed that borrowers in the middle class won't have an option for a home loan unless FHA takes over the loans that are no longer eligible," the MBA CEO and president argued.

He continued, "It's just going to frankly totally eliminate the access for any borrowers who are now cut out of those loan limits."

While the **Federal Housing Finance Agency**, which oversees both government-sponsored-enterprises, has not disclosed how far the drop in loan limits will be, such an adjustment will take effect at the start of next year because that’s when the statute requires normal loan limit changes to take place.

"FHFA has been analyzing reducing Fannie Mae and Freddie Mac loan limits across the country, and any such change would be announced with adequate advance notice for implementation on Jan. 1, 2014," stated an FHFA spokesperson.

The looming policy change points out two critical obstacles housing officials continue to face, including the availability of credit for potential buyers and guarantee fees.

As house prices continue to steadily improve, **Cato Institute** director of financial regulation Mark Calabria, believes that an adjustment in conforming loan limits will be 'relatively modest.'

"While the current limit sounds low for the urban coastal areas, it already covers and will continue to cover the vast majority of the housing market," Calabria stated.

He added, "So changes less than say $30,000 would be barely noticed."